Approved For Release 2008/05/12 : CIA-RDP84T00109R000100020009-0

ernst

File — Send Copy to OGE ✓done

25X1

Department of the Treasury
Washington, D.C. 20220

MEMORANDUM

Date: February 22, 1982

Also D/EURA ✓done

To: THE FILES

From: Alexis Rieffel

Subject: 26 January 1982 Meeting of CCEA WG on LDC Financial Problems

A. Comparable Treatment

LELAND: Opened meeting with request for comments on the "comparable treatment" memo that had been circulated.

MICHALOPOULOS: Memo is OK. In discussion of "prolonged debt crises", need to look closely at how private sector behaves in these cases.

BAILEY: Regulatory agencies have been remiss in not encouraging U.S. bank to take harder look at some countries. Interpretation of ten percent rule is a scandal.

CONSTABLE: Memo is OK.

B. Related Issues

LELAND: Need to send to CCEA with "comparable treatment" memo a list of questions raised by our work so far. For example:

-- Why do we know so little about external debt of other countries? In the case of Costa Rica, every time we looked we found another big chunk of debt. Perhaps reporting system is deficient. Need to convey more of a flavor of what's happening. Risk analysis is a growth industry these days. (LISTER: In many cases, the commercial banks do not know their own consolidated position, or the exposure of other banks, or the extent to which their exposure is guaranteed by governments. BIS members agree on need to improve information base.)

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

TD F 80 - 02.1
Replaces TD F 10 - 01.8 which may be used

Approved For Release 2008/05/12 : CIA-RDP84T00109R000100020009-0

Approved For Release 2008/05/12 : CIA-RDP84T00109R000100020009-0

-- Why do lenders follow the leader and downplay risk? Need a chapter in our paper on "sheep" effect.

-- Why did European countries want to extend more new credit to Poland, but reschedule on harder terms? It's like the Harlem furniture store that sold furniture even when it knew it wasn't going to get paid back. Need more analysis of differences between government and private lending. Our CCC credits to Poland in 1980 were just to sell grain. We could not have justified these credits on financial grounds. For European countries, they just want to get rid of surplus production. All they need is some hope of repayment.

-- Is it possible to have a fully secured loan to a foreign country? Look at what happened with Citibank's loan to Poland for copper production. Are foreign governments that borrow required to keep compensating balances? (LISTER: This is not practical in most syndicated loans.)

-- Do nationalized banks behave differently? What is the effect on the banks williness to lend of having creditor-country governments guarantee loans?

C. MDB Rescheduling

LELAND: Have been curious about non-participation of MDBs and some governments (e.g. LDCs and socialist countries) in debt-relief operations. Ironic that MDBs are political and aid-oriented, yet do not reschedule.

BAILEY: MDB pitch about never having a default is a fiction. They get paid because they have preferred creditor status.

LELAND: Need to compare MDB disbursements with repayments to MDBs in past debt crises.

CONSTABLE: MDB exemption from rescheduling is positive not negative factor from some points of view. State has not reached conclusion yet on co-financing aspect of MDB issue.

MICHALOPOULOS: MDB exemption has always seemed incongruous. However, if U.S. is seeking to make MDBs more financially independent and to promote MDB participation in rescheduling or on co-financing, then exception is helpful.

Approved For Release 2008/05/12 : CIA-RDP84T00109R000100020009-0

Approved For Release 2008/05/12 : CIA-RDP84T00109R000100020009-0

FARRAR: Should prepare memo on MDB rescheduling issue for next CCEA meeting -- giving both sides. It is relevant to current case of Sudan.

D. East European Debt

LELAND: No reservations about pursuing East European debt in this group. It cannot be separated out. Two areas of confusion: (1) meaning of "default" and alternatives to rescheduling; and (2) fact that U.S. is not a big player in East Europe. Must know a lot more about exposure and attitudes of major creditors.

BAILEY: Re Background Paper, why were Czechslovakia and Bulgaria left out. (CANNER: Time constraints. They are less important. Will provide information in next round.)

ERNST: CIA is doing comprehensive study of East European financing and debt situation. This could be helpful for this Group. Need to look at East European debt in a more integrated fashion for CCEA.

LELAND: Need to find out how much lending to Poland has been done since mid-1980 without guarantee from source-country government. Probably none. Need to know how much credit East Europe is now getting from West, and from which creditors. Is net flow in or out?

CONSTABLE: Need to be careful with Yugoslavia. It is different from other East European countries.

E. Background Paper on LDC Debt

BAILEY: Need continuous updates of this paper and Background Paper on East European debt. Need to look at issue of violating U.S. debt rescheduling policy in non-default cases, such as Pakistan.

CONSTABLE: State reserves on Background Paper. Will provide comments in future.

F. Other Matters

LELAND: Need to add OCC to this Working Group.

Approved For Release 2008/05/12 : CIA-RDP84T00109R000100020009-0

Approved For Release 2008/05/12 : CIA-RDP84T00109R000100020009-0

PARTICIPANTS

Treasury: Marc Leland
Don Templeman
Steve Canner
Jim Lister
Charles Dallara
Lex Rieffel

State: Elinor Constable
Larry Mondschein

AID: Costas Michalopoulos
Neal Riden

NSC: Norman Bailey

OMB: Steve Farrar

CIA: Maurice Ernst STAT

CCEA: Doug Anderson
Eric Hemel

DISTRIBUTION

Particpants, plus T. Dawson, T. Leddy, B. Newman, J. Ammerman, N. Jacklin, J. Murphy, F. Maresca, J. Hartzell, R. Cornell

Approved For Release 2008/05/12 : CIA-RDP84T00109R000100020009-0